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pensions & investments

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Two pension managers add futures

Morgan offers financial futures in pooled funds

By Clare Minick

NEW YORK—In a move that could have far-reaching repercussions on the future management of fixed-income employe benefit funds, Morgan Guaranty Trust Co., one of the largest and most prestigious managers in the country, has begun to use financial futures for its employe benefit accounts.

While a number of pension funds, including the internally-managed funds of Sears and Dupont, began using financial futures last year, Morgan is apparently the first major trust company to do so for employe benefit funds.

At a time when long treasury bonds with double digit coupons have sunk below par and the markets move by leaps, not steps, the concept of hedging seems to be taking hold with U.S. money managers.

Howard Hudson, vp and head of fixed-income policy at Morgan, told *Pensions & Investments* that initially Morgan will use financial futures for its short-term (less than one-year maturity) and long-term public bond funds, which invest in government securities.

At the end of 1979, Morgan had $5.3 billion in fixed-income and $2.2 billion in short-term funds.

Although Morgan has a total of nine commingled fixed-income funds (including two international), Mr. Hudson said that "we're leaving it open" as to which funds eventually may use financial futures. He described the use of futures as "a logical extension of long positions in the cash market.

"Further, we view futures as an additional tool at our disposal. We'll use financial futures primarily as a hedging technique. We think futures will enhance our ability to manage the assets with which we are entrusted."

He stressed the use of futures by Morgan will be an "evolutionary process." And, he said, depending on the markets, "we may not always be involved in financial futures."

Mr. Hudson said that the strategy Morgan will use in the futures' markets will be related to strategies used in the cash market.

"We'll be hedging our long positions, futures will not be used to leverage our ability to manage assets."

And, he said that he didn't expect that Morgan would use futures in anticipation of contributions from clients. Rather, "we may buy forward in anticipation of a bond maturing," he said.

Morgan has spent two years wading through regulatory and legal questions on the use of futures for employe benefit assets.

Setting up margin accounts has been a long and somewhat grueling process.

Typically, when a margin account is set up for financial futures, the account is in the name of the broker/dealer. Morgan devoted a lot of time with legal counsel to make sure that separate accounts could be set up which fully comply with ERISA.

Mr. Hudson explained that treasury bills, not cash, would be used for the margin ac-

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Boston Co. offers bond hedging by commodities

By Gwen Nobbe-Asher

CHICAGO—The Boston Co., with some $5 billion in assets, has announced a new product which combines the use of a long-term bond portfolio and the commodities futures markets.

The product, called the Inflation Indexed Portfolio (IPI) Concept, is designed to fight the ravages of inflation.

According to The Boston Co. senior vp Ed Broom, the product is an "innovative" investment vehicle being presented by a reputable investment company—not a bucket shop commodity operation.

"This product is the result of our concern about and our recognition of the tremendous impact inflation has had on investments and what it is doing to the total pension fund," Mr. Bloom told a group of two dozen major corporate fund sponsors at a meeting here.

"We do not believe that you can beat inflation by just ignoring it. Therefore, we have developed a portfolio that allows you to invest in inflation," he said.

According to Charles Clough, the man who developed the concept for The Boston Co., pension fund investors must get the horror stories about the commodity markets out of their heads and consider the merits of what the commodity markets can do for them.

He said, of course, there are problems in dealing with the commodity markets, but they are manageable, and the Inflation Indexed Portfolio is one of the most conservative investment vehicles ever introduced.

"We plan to invest in inflation itself. We plan to buy and hold commodity contracts in the 16 most widely-traded contracts and hold them forever. The composite of the 16

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Two state funds eye loan to Chrysler

By Les Stern

LANSING, MI.—The financially-plagued Chrysler Corp. is seeking $150 million from the $4.1 billion state of Michigan retirement systems amidst warnings from one state legislator that "retirees of the state will not be taken to the cleaners as they have been in the past."

Meanwhile, Chrysler is also seeking a loan from the approximately $235 million Missouri state employes' retirement system.

According to Jane Bierdeman-Fike, chairman of the retirement system board, Chrysler is seeking a $25 million first mortgage on its proving grounds in Chelsea, Mi., a note which would carry between 10% and 14% interest.

Under Missouri law, the state cannot use its funds to finance private corporations. However, the Missouri attorney general is studying whether the pension fund assets belong to the state.

Additionally, reportedly the state of Delaware also was planning to aid the ailing corporation, but a pension official there said the retirement system had not been asked to take part.

Given the nature of Chrysler's current financial position, any financial arrangement between the retirement systems and the automaker probably would be controversial, and one retirees' group already is exploring the possibility of a lawsuit.

According to Rep. Francis R. (Bus) Spaniola (D-Corunna), Chrysler is seeking a $150 million loan at 11% interest. Rep. Spaniola, chairman of the senior citizens and retirement committee, which likely will have to approve a special law to make any arrangement legal, called the proposal "an absolute insult to the retirees of the state."

Rep. Spaniola vowed that any bill approving an 11% loan "will get out of my committee over my dead body. I can say that my committee members will not support it."

Chrysler officials were unavailable for specific comments. However, an analyst at Moody's Investor Service said Chrysler's current bond rating is Ba, and any public offering of Chrysler company debt would have to be at "quite a bit in excess" of 11% interest. He suggested a "ballpark figure" of about 14%.

Rep. Spaniola said he has a bill ready calling for a purchase and leaseback arrangement whereby the pension funds would finance construction of a four-cylinder engine facility, which Chrysler would then lease.

The financing Chrysler is seeking would be part of $1.43 billion they would raise before becoming eligible for $1.5 billion in federal loan guarantees.

But, according to Rep. Spaniola, the kind of financing Chrysler, and originally Gov. William Milliken, were seeking was not "prudent investing or prudent social investing." He said he is in favor of investing in the manner outlined in "The North Will Rise Again," but he added that "this goes far beyond what that talked about."

He said originally the governor suggested a $150 million first mortgage using the company's Highland Park headquarters and Chelsea proving ground as collateral.

Under Michigan state law, the pension fund loan could be no more than 75% of the appraised value of the assets being used as collateral. So the market value of the two properties would have had to have been $200 million in order for the deal to have been legal.

According to Rep. Spaniola, the combined assessed tax value of the properties was $35.5 million, so the market value was $71 million. After that was brought up, the Highland Park deal "died a quiet death," he said.

Rep. Spaniola said he then proposed the purchase-leaseback arrangement. Early in January, Gov. Milliken came out with a new proposal calling for a $150 million first mortgage, using the Trenton facility for four-cylinder engines as collateral.

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Inside

Chasing inflation at Harvard University

3 Not even the nation's oldest, largest and most sophisticated endowment—Harvard University's $1.5 billion fund—is safe from the ravages of inflation. But, it is trying to keep up by using some nonconventional investment tools to generate income—venture capital, options, securities lending and the tools of the new investment technology.

Illinois board into options—page 3

When Blue Chips become imprudent

15 When can investing in the stocks of such good all-American companies as American Telephone & Telegraph and General Motors be considered imprudent? Right now, said the research director and editor of the Value Line Investment Survey. Why? Because the dividends of those companies—and a good many other Blue Chips—are being generated not from earnings but from capital these days. "We're eating our own seed corn," said this observer.

MPT: Entering the second generation

17 If you haven't heard much about modern portfolio theory (MPT) lately, brace yourself. A special section entitled "MPT-The Second Generation" features a dozen articles on various facets of the subject, and a thorough reading suggests that quantitative techniques continue to gain wide acceptance in the investment world under a variety of labels.

P&I Index up 1.6%

The *Pensions & Investments* Index of the largest institutional holdings was up 1.6% for the two weeks ended February 11, trailing the advance of the Standard & Poor's 500, which was up 1.976% for the period.

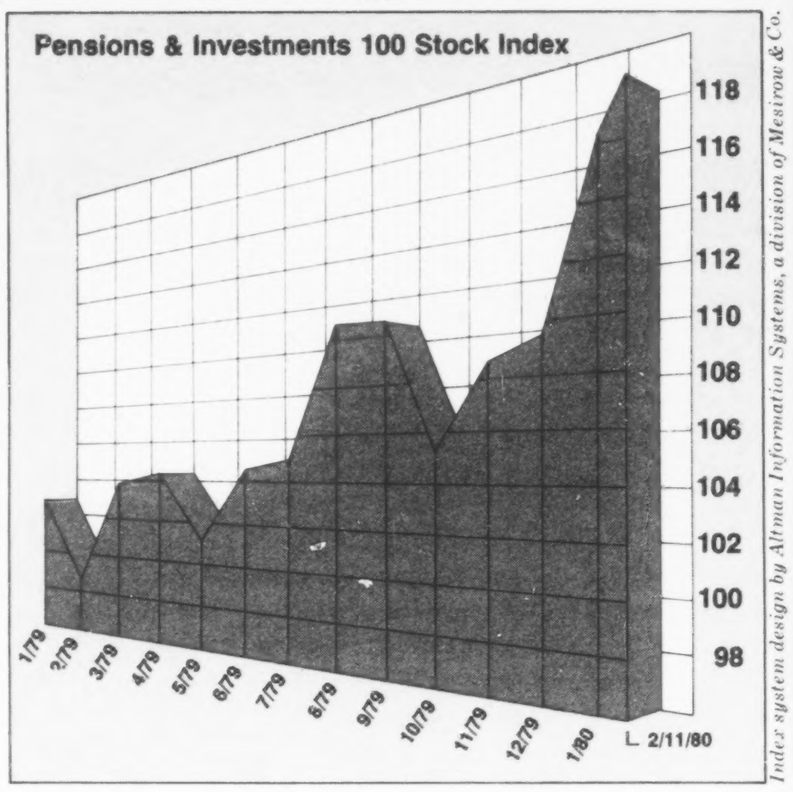
The *P&I* Index also trailed the New York Stock Exchange Composite which was up 1.698% for the period, but it outpaced the Dow Jones Industrial Average which was up only 1.262%.

Once again energy related stocks in the *P&I* Index fared best with the largest gains being registered by Standard Oil of Indiana, up 21%, Union Pacific, up 20.6%, Gulf Oil, up 18.3%, Standard Oil of California, up 17.3%, Halliburton, up 11.6%, and Exxon, up 11.3%.

The largest losses in the period were recorded by Squibb, down 9.2%, American Express, down 9.8%, Avon Products, down 8.9%, Revlon, down 8.4%, Warner Lambert, down 7.6%, and Eastman Kodak, down 7.2%.

On February 11 the *P&I* Index stood at 116.324. The index is constructed of the 100 largest institutional holdings as reported quarterly by the institutions to the SEC and published by Computer Directions Advisers Inc., Silver Spring, Md.

The index, which was developed by Arthur P. Altman, Altman Information Systems (a division of Mesirow & Co.) Chicago, was set at 100 on Dec. 31, 1978. ■



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